

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Michigan 47th District Court</u>	County: Oakland
Audit Date June 30, 2004	Opinion Date September 23, 2004	Date Accountant Report Submitted To State: December 29, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

Michigan 47th District Court

Financial Report with Supplemental Information June 30, 2004

Michigan 47th District Court

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Independent Auditor's Report

To District Judges Marla E. Parker
and James B. Brady and the Members of the City
Councils of Farmington and Farmington Hills
Michigan 47th District Court
Farmington Hills, Michigan 48336

We have audited the accompanying financial statements of the governmental activities, the Administrative Fund, and the fiduciary fund information of the Michigan 47th District Court, which collectively comprise the Court's basic financial statements as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Michigan 47th District Court's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the Administrative Fund, and the fiduciary fund information of the Michigan 47th District Court and the respective changes in financial position thereof for the year ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Court's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A member of



A worldwide association of independent accounting firms

To District Judges Marla E. Parker
and James B. Brady and the Members of the City
Councils of Farmington and Farmington Hills
Michigan 47th District Court

As described in Note I, the Court has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003. As a result, these financial statements present entirely new financial information. Governmental activities report information by individually significant fund, as well as in total, on the full accrual basis of accounting.

Plante & Moran, PLLC

September 23, 2004

Michigan 47th District Court

Management's Discussion and Analysis

Our discussion and analysis of the Michigan 47th District Court's (the "Court") financial performance provides an overview of the Court's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Court's financial statements.

The Court is a joint venture of the City of Farmington and the City of Farmington Hills. Its financial activities are comprised of two major functions - the operation of the Court and its trust and agency transactions. The operation of the Court is reported in its Administration Fund. The trust and agency activities of the court are reported in Fiduciary Funds.

Using this Annual Report

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplemental information. The basic financial statements include information that presents two different views of the Court:

- The first column of the financial statements includes information on the Court's Administrative Fund under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Court's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method.
- The government-wide financial statement column provides both long-term and short-term information about the Court's overall financial status. The statement of net assets and the statement of activities provide information about the activities of the Court as a whole and present a longer-term view of the Court's finances. These statements tell how these services were financed in the short-term, as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Michigan 47th District Court

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The table below depicts key financial information for the Administrative Fund in a condensed format, in thousands of dollars. This information will be comparative in subsequent years:

Assets

Current assets	\$ 272
Capital assets	<u>18</u>
Total assets	290

Liabilities

180

Net Assets

Invested in capital assets	18
Restricted for drunk driving-related expenses	90
Unrestricted	<u>2</u>
Total net assets	<u>\$ 110</u>

Revenue

Contributions:	
City of Farmington	\$ 396
City of Farmington Hills	2,533
Other	<u>110</u>
Total revenue	3,039

Expenses - Court services

3,033

Change in Net Assets

\$ 6

The Court as a Whole

- The Court's primary source of revenues is contributions from the Cities of Farmington and Farmington Hills, Michigan, which represents 96 percent of total revenue.
- Salaries and fringe benefits continue to be a significant expense of the Court, representing 77 percent of the Court's total expenditures.

Michigan 47th District Court

Management's Discussion and Analysis (Continued)

- Fiscal year 2003-2004 expenditure numbers reflect a number of line item increases directly related to the Court's move into the new facility on the Farmington Hill's campus effective July 1, 2003. The Court moved from a 13,800 square foot facility into a 43,600 square foot facility. Obviously, there was no track record for expenses associated with operations of the new facility and line item budget numbers for the fiscal year were established based on estimates using the best information available in January 2003, which at this time indicated significant net increases in facility operations. This explains some of the variances between line item budgets and actual expenditures for the fiscal year. Expense areas that were affected include: public utilities, building maintenance, insurance and bonds, and contractual services.
- In addition to the increases related to the new building, the Court also absorbed significant increases in many statutorily mandated line items, including witness fees, jury fees, interpreter fees, and court appointed counsel fees. Legislation increased the jury fee from \$15 per day to \$25 for the first day and \$40 for each subsequent day. There is a reimbursement component to the legislation so the cities recovered any of the costs over the traditional \$15/day limit, which is reflected in the contributions portion of the Court's budget under the "state funding - other" line item.

The Court's Fund

Our analysis of the Court's major fund is included on pages 7 through 9 in the first column of the respective statements. The fund column provides detailed information about the most significant fund, - not the Court as a whole. The Court's major fund consists solely of the Administrative Fund.

The Administrative Fund budget is prepared by court administration and approved by the councils of the two cities. Substantially all of the expenditures of the Court are paid for by contributions from the two cities based upon an agreed formula for funding the court.

The fund balances of the Court consists of legal reserves and imprest cash. Once per year, at the end of the Court's fiscal year, the two cities calculate the net expenditures of the Court and adjust their final contribution to set fund balance at the approved reserves. During the current year, fund balance was decreased by \$12,580, primarily because a portion of the accumulated drunk driving proceeds were used to cover current expenditures, as recommended by Court management.

Michigan 47th District Court

Management's Discussion and Analysis (Continued)

Court Budgetary Highlights

Despite the expenditure uncertainty created by the issues noted above, the Court remained within approximately \$1,700 of its allocated budget by cutting in other areas to offset the cost increases created by the facility change and statutory mandates. Approximately \$1,100 of this overage relates to carryover costs that were included in the Court's budget for the year ended June 30, 2003. Areas in which the Court was able to cut costs from the prior year included telecommunications, law library, substitute personnel (visiting judges and substitute recorders), miscellaneous expenditures, and capital outlay.

As for fine and fee revenues, the Court continued its efforts in aggressively pursuing outstanding fine and fee receivables by implementing monthly show cause dockets and voluntary income withholding orders. The collection efforts began in April 2003. To date, total collections targeted were \$642,770, of which \$395,227 have been collected with the balance of \$247,543 remaining open in bench warrant status. The collection efforts will be ongoing and will continue into future years until all outstanding cases have been collected or written off as uncollectible.

Contacting the Court's Management

This financial report is intended solely to provide our funding units, citizens, and taxpayers a general overview of the Court's finances and to show the Court's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Court's administration.

Michigan 47th District Court

Governmental Fund Balance Sheet/Statement of Net Assets June 30, 2004

	Administrative Fund - Modified Accrual Basis	GASB No. 34 Adjustments (Note 2)	Statement of Net Assets - Full Accrual Basis
Assets			
Cash and cash equivalents (Note 3)	\$ 188,801	\$ -	\$ 188,801
Due from other governmental units	68,836	-	68,836
Prepaid expenses and other assets	14,384	-	14,384
Capital assets (Note 5)	-	18,377	18,377
Total assets	<u>\$ 272,021</u>	18,377	290,398
Liabilities			
Accounts payable	\$ 79,073	-	79,073
Due to other governmental units	1,697	-	1,697
Due to other funds	12,731	-	12,731
Salary withholdings, accrued payroll, and payroll taxes payable	86,612	-	86,612
Total liabilities	180,113	-	180,113
Fund Balance			
Reserved - Drunk driving appropriation (Note 6)	90,108	(90,108)	-
Unreserved/Undesignated	1,800	(1,800)	-
Total fund balance	91,908	(91,908)	-
Total liabilities and fund balance	<u>\$ 272,021</u>		
Net Assets			
Invested in capital assets		18,377	18,377
Restricted for drunk driving related expenses (Note 6)		90,108	90,108
Unrestricted		1,800	1,800
Total net assets		<u>\$ 110,285</u>	<u>\$ 110,285</u>

Michigan 47th District Court

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended June 30, 2004

	Administration Fund - Modified Accrual Basis	GASB No. 34 Adjustments (Note 2)	Statement of Activities - Full-accrual Basis
Revenue			
Contributions:			
City of Farmington	\$ 395,674	\$ -	\$ 395,674
City of Farmington Hills	2,533,075	-	2,533,075
State funding:			
Judicial salaries	91,223	-	91,223
Drunk driving	11,214	-	11,214
Miscellaneous income	7,513	-	7,513
Total revenue	3,038,699	-	3,038,699
Expenditures			
Salaries and wages	1,566,509	-	1,566,509
Employees' longevity pay	33,530	-	33,530
Fringe benefits	2,692	-	2,692
Insurance allowance	840	-	840
Vehicle allowance	3,600	-	3,600
Payment in lieu of hospital insurance	4,753	-	4,753
Social Security	115,387	-	115,387
Employees' hospitalization insurance	300,292	-	300,292
Employees' life insurance	20,251	-	20,251
Retirement contribution	245,592	-	245,592
Workers' compensation	7,150	-	7,150
Unemployment compensation	942	-	942
Employees' optical service	2,975	-	2,975
Employees' dental plan	38,666	-	38,666
Office supplies	56,079	-	56,079
Postage	21,639	-	21,639
Records management	1,434	-	1,434
Law library	9,779	-	9,779
Professional services	7,946	-	7,946
Professional services - Labor relations	13,406	-	13,406
Witness fees	13,675	-	13,675
Jury fees	4,991	-	4,991
Interpreter fees	33,852	-	33,852
Substitute court reporter	9,185	-	9,185
Court-appointed counsel	82,840	-	82,840
Accounting fees	25,940	-	25,940
Audit and accounting fees	8,400	-	8,400
Contractual services	129,606	-	129,606
Telecommunications	14,378	-	14,378
Transportation	10,423	-	10,423
Mileage	1,194	-	1,194

Michigan 47th District Court

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities (Continued) Year Ended June 30, 2004

	Administration Fund - Modified Accrual Basis	GASB No. 34 Adjustments (Note 2)	Statement of Activities - Full-accrual Basis
Expenditures (Continued):			
Public utilities	\$ 117,042	-	\$ 117,042
Maintenance - Office equipment	4,297	-	4,297
Building maintenance	43,497	-	43,497
Cleaning and uniforms	2,061	-	2,061
Equipment rental	18,999	-	18,999
Memberships	4,804	-	4,804
Miscellaneous	10,798	-	10,798
Banking charges	12,731	-	12,731
Insurance and bonds	23,566	-	23,566
Noncapitalized assets	7,161	-	7,161
Capital outlay - Computer software	18,377	(18,377)	-
Total expenditures	3,051,279	(18,377)	3,032,902
Excess of Expenditures Over Revenue/Change in Net Assets	(12,580)	18,377	5,797
Fund Balance/Net Assets - Beginning of year	104,488	-	104,488
Fund Balance/Net Assets - End of year	<u>\$ 91,908</u>	<u>\$ 18,377</u>	<u>\$ 110,285</u>

Michigan 47th District Court

Fiduciary Funds Statement of Assets and Liabilities June 30, 2004

	<u>Agency Fund</u>	<u>Trust Fund</u>
Assets		
Cash and cash equivalents (Note 3)	\$ 363,633	\$ 255,996
Due from other funds	<u>12,731</u>	<u>-</u>
Total assets	<u>\$ 376,364</u>	<u>\$ 255,996</u>
Liabilities		
Due to City of Farmington Hills	\$ 216,473	\$ -
Due to City of Farmington	47,242	-
Due to Municipal Building Fund	16,781	-
Due to State of Michigan	81,610	-
Due to Oakland County	7,968	-
Refundable bonds and other	<u>6,290</u>	<u>255,996</u>
Total liabilities	<u>\$ 376,364</u>	<u>\$ 255,996</u>

Michigan 47th District Court

Notes to Financial Statements June 30, 2004

Note I - Summary of Significant Accounting Policies

The accounting policies of the Michigan 47th District Court (the "Court") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Court:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Court's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for the Court as a whole

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

Reporting Entity

The Court is reported as a joint venture in the cities of Farmington and Farmington Hills, Michigan's basic financial statements. Based on the significance of any operational or financial relationships with the Court, there are no component units to be included in the Court's financial report.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Court's basic financial statements include both the Court's full accrual financial statements and modified accrual financial statements.

Full Accrual Financial Statements

The full accrual financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, which is described below.

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of net assets includes and recognizes all long-term assets. The Court's net assets are reported in three parts - invested in capital assets, restricted net assets, and unrestricted net assets.

The statement of activities eliminates capital outlay expense and will include depreciation on long-term assets in subsequent years.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the full accrual financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Court has elected not to follow public sector standards issued after November 30, 1989 for its full accrual activities.

Modified Accrual Financial Statements

The Court's modified accrual financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which is described below.

Grant and other revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay finance expenditures of the fiscal period. For this purpose, the Court considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Fine and fee revenue items are considered to be available only when cash is received by the Court. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period.

The accounts of the Court are organized on the basis of funds, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad categories as follows:

Michigan 47th District Court

Notes to Financial Statements
June 30, 2004

Note I - Summary of Significant Accounting Policies (Continued)

Governmental Funds

Administration Fund - The Administration Fund was established to account for the operations of the Court. The Administration Fund is funded principally by transfers from the City of Farmington Hills and the City of Farmington and reimbursements from the State of Michigan.

Fiduciary Funds

Agency and Trust Funds - The Agency and Trust Funds report the collection of amounts that are subsequently returned or paid to third parties. Accordingly, the operations of the funds are limited to cash transactions.

Financial Statement Amounts

Cash and Cash Equivalents - The Court has defined cash and cash equivalents to include cash on hand and all highly liquid investments purchased with an original maturity of three months or less when acquired.

Capital Assets - Capital assets are defined by the Court as assets with an initial cost of more than \$4,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Court only records capital assets paid for by the Administration Fund. The Court building and the majority of the furniture and equipment were paid for by the Farmington Hills Building Authority, and are recorded on the financial statements of the City of Farmington and the City of Farmington Hills.

Computer software is depreciated using the straight-line method over the useful life of five years.

Fund Equity - In the fund financial statements, the governmental fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Michigan 47th District Court

Notes to Financial Statements June 30, 2004

Note 2 - Reconciliation of the Court as a Whole and the Individual Fund Financial Statements

Total fund balance and the net change in fund balance of the Court's Administration Fund differs from the net assets and change in net assets of the Court's activities reported in the governmental fund balance sheet/statement of net assets and the statement of revenue, expenditures, and changes in fund balance/statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current focus of the administration fund balance sheet and statement of revenue, expenditures, and change in fund balance.

The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 91,908
Amounts reported in the statement of net assets are different because capital assets are not financial resources, and are not reported in the funds	<u>18,377</u>
Total Net Assets - Full Accrual Basis	<u><u>\$ 110,285</u></u>
Net Change in Fund Balance - Modified Accrual Basis	\$ (12,580)
Amounts reported in the statement of activities are different because capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance	
Change in Net Assets - Full Accrual Basis	<u><u>\$ (12,580)</u></u>

Michigan 47th District Court

Notes to Financial Statements June 30, 2004

Note 3 - Cash and Cash Equivalents

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Court is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Court's cash and cash equivalents at June 30, 2004 are composed of the following:

	Governmental Activities	Fiduciary Funds	Total
Deposits	\$ 187,951	\$ 619,629	\$ 807,580
Petty cash	850	-	850
Total	<u>\$ 188,801</u>	<u>\$ 619,629</u>	<u>\$ 808,430</u>

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$854,778. Of that amount, approximately \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Court believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Court evaluates each financial institution with which it deposits Court funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Interfund Receivables

The following are the interfund receivables at June 30, 2004:

Fund Due To	Fund Due From	Amount
Agency Fund	Administration Fund	\$ 12,731

Michigan 47th District Court

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets

Capital asset activity of the Court was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets being depreciated -				
Computer software	\$ -	\$ 18,377	\$ -	\$ 18,377
Less accumulated depreciation	-	-	-	-
Net capital assets	<u>\$ -</u>	<u>\$ 18,377</u>	<u>\$ -</u>	<u>\$ 18,377</u>

Capital assets are recorded at cost.

Note 6 - Reserved/Restricted Fund Balance/Net Asset Activity

A summary of the current year activity related to the Court's drunk driving appropriation is as follows:

Reserved/Restricted fund balance/Net assets - July 1, 2003	\$ 101,756
Current year receipts from State of Michigan	11,214
Current year expenditures	<u>(22,862)</u>
Reserved/Restricted fund balance/Net assets - June 30, 2004	<u>\$ 90,108</u>

Note 7 - Budget Information

The annual budget of the Administration Fund is prepared by Court management and adopted by the city councils of the City of Farmington and the City of Farmington Hills, Michigan in May for the following fiscal year; subsequent amendments are approved by both city councils. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (statement of revenue, expenditures, and changes in fund balance - budget and actual - Administration Fund) is presented on the same basis of accounting used in preparing the adopted budget.

Michigan 47th District Court

Notes to Financial Statements June 30, 2004

Note 7 - Budget Information (Continued)

The Administration Fund budget has been adopted in total; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the Administration Fund budget as adopted by the respective city councils is included in the required supplemental information.

Note 8 - Risk Management

The Court is exposed to various risks of loss pertaining to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Court has purchased commercial insurance for medical benefits provided to employees, and participates in the Michigan Municipal Risk Management Authority (the "Authority"), a risk pool for claims relating to property loss, torts, and errors and omissions. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Court.

Note 9 - Retirement Plans

Employees of the Court are covered by the retirement plan of the City of Farmington Hills. Information related to this plan is available at the City of Farmington Hills city offices.

Required Supplemental Information

Michigan 47th District Court

Required Supplemental Information Budgetary Comparison Schedule - Administration Fund June 30, 2004

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variances with Amended Budget
Revenue				
Contributions:				
City of Farmington	\$ 393,837	\$ 393,837	\$ 395,674	\$ 1,837
City of Farmington Hills	2,521,314	2,532,471	2,533,075	604
State funding:				
Judicial salaries	91,448	91,448	91,223	(225)
Drunk driving	23,500	23,500	11,214	(12,286)
Miscellaneous income	7,500	6,600	7,513	913
Total revenue	3,037,599	3,047,856	3,038,699	(9,157)
Expenditures				
Salaries and wages	1,522,638	1,551,371	1,566,509	(15,138)
Employees' longevity pay	34,730	33,530	33,530	-
Fringe benefits	3,000	3,000	2,692	308
Insurance allowance	840	840	840	-
Vehicle allowance	3,600	3,600	3,600	-
Payment in lieu of hospital insurance	4,800	4,800	4,753	47
Social Security	116,793	116,793	115,387	1,406
Employees' hospitalization insurance	312,540	312,540	300,292	12,248
Employees' life insurance	22,813	22,813	20,251	2,562
Retirement contribution	205,209	245,400	245,592	(192)
Workers' compensation	7,308	8,250	7,150	1,100
Unemployment compensation	-	-	942	(942)
Employees' optical service	4,000	3,005	2,975	30
Employees' dental plan	41,030	41,030	38,666	2,364
Office supplies	49,000	49,000	56,079	(7,079)
Postage	20,000	20,000	21,639	(1,639)
Photocopy and microfilm expense	4,000	-	-	-
Records management	2,500	1,000	1,434	(434)
Law library	11,520	8,000	9,779	(1,779)
Professional services	22,000	15,000	7,946	7,054
Professional services - Labor relations	5,000	15,000	13,406	1,594
Witness fees	27,000	17,000	13,675	3,325
Jury fees	12,000	9,000	4,991	4,009
Transcript fees	1,000	-	-	-
Interpreter fees	15,000	31,000	33,852	(2,852)
Substitute court reporter	14,000	12,000	9,185	2,815

Michigan 47th District Court

Required Supplemental Information Budgetary Comparison Schedule - Administration Fund (Continued) June 30, 2004

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variances with Amended Budget
Expenditures (Continued):				
Court-appointed counsel	\$ 65,000	\$ 65,000	\$ 82,840	\$ (17,840)
Accounting fees	25,932	25,932	25,940	(8)
Audit and accounting fees	10,000	8,400	8,400	-
Contractual services	116,110	116,110	129,606	(13,496)
Telecommunications	26,000	20,000	14,378	5,622
Transportation	18,000	16,000	10,423	5,577
Mileage	2,000	2,000	1,194	806
Public utilities	83,500	95,000	117,042	(22,042)
Maintenance - Office equipment	26,531	23,000	4,297	18,703
Building maintenance	106,020	36,000	43,497	(7,497)
Cleaning and uniforms	3,800	3,800	2,061	1,739
Equipment rental	27,570	27,570	18,999	8,571
Memberships	6,795	6,795	4,804	1,991
Miscellaneous	12,000	12,000	10,798	1,202
Banking charges	-	12,000	12,731	(731)
Insurance and bonds	28,000	28,000	23,566	4,434
Noncapitalized assets	-	10,000	7,161	2,839
Capital outlay - Computer software	18,020	18,020	18,377	(357)
Total expenditures	3,037,599	3,049,599	3,051,279	(1,680)
Excess of Expenditures Over Revenue	-	(1,743)	(12,580)	(10,837)
Fund Balance - Beginning of year	104,488	104,488	104,488	-
Fund Balance - End of year	\$ 104,488	\$ 102,745	\$ 91,908	\$ (10,837)

Other Supplemental Information

Michigan 47th District Court

Schedule of Cash Receipts and Disbursements Year Ended June 30, 2004

	Agency Fund Types	
	Agency Fund	Trust Fund
Cash and Cash Equivalents - July 1, 2003	\$ 315,339	\$ 192,056
Cash Receipts		
Fines and fees collected	4,350,587	-
Interest and other	2,953	860
Bond and escrow receipts and garnishments collected	-	824,252
Total cash receipts	4,353,540	825,112
Disbursements		
Transfers to Court control units:		
City of Farmington	571,334	-
City of Farmington Hills	2,483,617	-
Transfers to State of Michigan	862,636	-
Transfers to Oakland County	106,599	-
Transfers to Judges' Retirement System	22,128	-
Bond refunds and forfeitures and escrow and garnishments disbursed	-	758,667
Transfers to Building Fund	204,882	-
Transfers for clearance cards	42,470	-
Bank charges and other	11,580	2,505
Total disbursements	4,305,246	761,172
Cash and Cash Equivalents - June 30, 2004	\$ 363,633	\$ 255,996

September 23, 2004

Honorable Judges of the State of Michigan
47th Judicial District Court
31605 West Eleven Mile Road
Farmington Hills, MI 48336

Dear Judges:

We have recently completed our audit of the financial statements of the State of Michigan 47th Judicial District Court for the year ended June 30, 2004. In addition to the audit report, we offer the following comments and recommendations:

New Financial Statement Format

You will notice a very different look to the financial statements this year. Although there are many differences with this new reporting model, the major additions are as follows:

- **Management Discussion and Analysis:** Management is now required to give an overview of the Court's overall financial position and results of operations.
- **Government-wide Financial Statements:** These additional statements adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the Court from a longer term perspective (i.e. are today's taxpayers paying the full cost of today's services?). These statements show capital assets as part of the Court's financial picture.
- **Budget Comparison:** A financial statement reader will now be able to view not only the actual revenue and expenditures of the Court as compared to the current budget, but also as compared to the original budget.

We would be happy to discuss any questions you may have about the new statements and how to best interpret the information provided.

Internal Control Considerations

During the year's audit, we were required to adopt the Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled *Consideration of Fraud in a Financial Statement Audit*. SAS 99 requires new procedures regarding the auditor's consideration of the possibility of fraud in a financial statement audit. This resulted in new and additional testing in the conduct of this year's audit. Therefore, most of the comments noted below are a result of the additional procedures applied through the implementation of SAS 99.

Honorable Judges of the State of Michigan
47th Judicial District Court

September 23, 2004

Positive pay systems – Organizations face a growing risk of check fraud due to the continued sophistication of devices such as scanners and color copiers. Annual losses in the U.S. are estimated to be beyond \$12 billion. It is not very difficult for someone to take a valid check, a canceled check or a voided check and either duplicate or modify the check and thereby relieve the check writer of an amount much greater than what had been intended. Making matters worse, where banks once protected the customers for this type of check fraud, sentiment is beginning to change, where ultimately it may be the customer's responsibility to cover fraudulent checks.

To combat this problem, many banks have introduced a tool called "positive pay", which verifies each check presented to the bank against a file of written checks that is electronically downloaded from the customer to the bank. Funds are not relieved from the customer's account unless the check matches the information downloaded or until the customer approves the check. The cost of this tool is very low. A side benefit is that it allows the bank to prepare an outstanding checklist for the bank reconciliation as a by-product of this service.

Segregation of duties - Currently, one individual is responsible for preparing the bank reconciliations of the Court's cash accounts. These reconciliations are not currently being reviewed by a supervisor. We would recommend that the Court consider ensuring that an individual separate from the cash collection process review and initial the bank reconciliations to ensure timeliness and accuracy of preparation.

We appreciate the opportunity to serve the Court. We would like to thank the staff of the Court for the cooperation with us during the audit. If you have any questions regarding this letter, please feel free to contact us.

Yours truly,

PLANTE & MORAN, PLLC



Gordon E. Krater



Stacey L. Reeves